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Kleinmann, E.

Indian exchange in 1896

Paris

1896

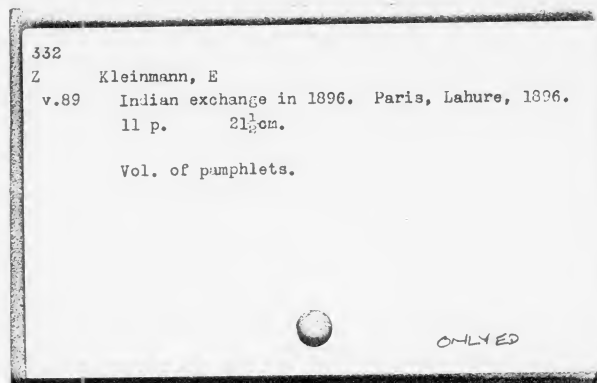
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INDIAN EXCHANGE

IN 1896

PARIS

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1896

INDIAN EXCHANGE

IN 1896

After a laborious start, the Indian monetary reform, which commenced on the 26th June 1893 by the closing of the Mints to the free coinage of silver, has for some months been making satisfactory progress.

The obstacles and opposition met with at the outset are not astonishing in any way.

A reform of this importance requires time; the customs and habits of a population of 250 millions had to be considered.

It was difficult to make the natives grasp the fact that the rupee could attain to a price very much

above its intrinsic value; to educate them to this requires time. Even in Europe many soi-disant experts in this question have not yet admitted its possibility.

The principal difficulty at the outset was the excessive importation of silver. The Government has thought it necessary to guard against this invasion by imposing from the 10th March 1894 a duty of 5 per cent on the importation of this metal; the salutary effect of this measure has not taken long to make itself felt.

The natives too are beginning to see that they have no longer an advantage in accumulating silver which they cannot now convert into rupees.

Owing to these different causes the importation of the metal into India decreases rapidly, as the following figures shew :

EXPORT OF SILVER FROM ENGLAND TO INDIA

Year 1893	£ 6,805,421
» 1894	5,010,468
» 1895	3,624,496

The sales of Council Bills have increased both as to the amount sold and the price obtained according to the following table, which shows clearly the increased value of the rupee :

MONTHLY SALES OF COUNCIL BILLS

	1894-1895			1895-1896		
	RUPEES	POUNDS STERLING	AVERAGE EXCHANGE	RUPEES	POUNDS STERLING	AVERAGE EXCHANGE
April	23,622,875	1,329,282	13,620	23,625,529	1,317,027	13,379
May	41,615,072	2,256,589	12,979	31,576,821	1,861,295	13,304
June	27,463,996	1,490,375	13,023	24,590,789	1,355,376	13,228
July	30,156,739	1,685,704	12,997	32,025,120	1,867,427	13,174
August	36,051,091	1,665,407	13,300	25,506,298	1,468,863	13,256
September	15,868,098	861,782	13,492	23,917,573	1,343,829	13,484
October	24,858,182	1,386,633	13,329	28,797,514	1,653,332	13,278
November	17,446,310	961,838	13,236	23,503,370	1,346,669	13,254
December	22,322,112	1,203,301	12,935	22,627,621	1,309,477	13,888
January	22,057,956	1,196,321	12,671	26,238,455	1,529,492	13,994
February	30,055,258	1,611,489	12,881	30,000,000 Estimated	1,796,875	14,25
March	35,623,108	1,936,272	13,045		Estimated	14,375
	311,570,797	17,006,993	13,100	325,309,123	18,511,412	13,656

Duty on silver 5 per cent from 10th March 1894.

This continued and progressive rise commences to disconcert the adversaries of the reform, who when the rate was at $12\frac{3}{4}$ predicted for it a certain failure.

They have never been willing to admit the incontrovertible principle that I have on several occasions asserted in the « Statist » viz that :

« All moneys the coinage of which is stopped, increase in value as they go into circulation. »

One of these dissentients, an « Indian Banker », wrote as follows to the « Statist » on the 9th March 1895 :

« It is refreshing to observe the confidence with which M^r K... continues to predict the success of the Indian currency measure of closing the mints to the coinage of silver. This confidence is all the more remarkable as the experience of the measure so far appears to point completely against the realizations of your correspondent's predictions. The truth of the incontestable monetary principle asserted by M^r K... is, I submit, receiving in India, a rude shock. »

And he added :

« As a matter of fact the increased sales of Council Bills in 1895 have only been possible at a great fall in the Exchange, and suggest that, so far from there being a prospect with the lapse of time of increased sales of Council Bills at rates more and

« more approaching to the desired rate of 1 sh. 4 d.
« they will be only possible at rates more and more
« apart from that rate. »

As we have seen, these pessimistic predictions have not been realized.

The exchange is to day 14 d. 3/8. In March last it was about 13 d. : a rise since that date of about 10 1/2 per cent.

As at the present price of 31 d. for silver the intrinsic value of the rupee is 11 1/2 pence, it already stands at a value exceeding by 25 per cent its value in silver.

It is of course possible that there may be a reaction in exchange after the active export season in India, but an exchange of 14 d. may now be considered as a firmly established *minimum*.

The final success will be the more certain and rapid in a great and rich country like India, owing to the considerable Trade balance in its favour every year, as the following figures shew :

OFFICIAL YEARS	IMPORTS OF MERCHANDISE (Exclusive of Treasure)	EXPORTS OF MERCHANDISE (Exclusive of Treasure)	EXCESS OF EXPORTS OVER IMPORTS OF MERCHANDISE
1890-91 . . .	Rx 71.975.370	Rx 100.227.348	Rx 28.251.978
1891-92 . . .	69.432.383	108.173.592	38.741.209
1892-93 . . .	66.278.622	106.574.671	40.296.049
1893-94 . . .	77.021.432	106.503.369	29.481.937
1894-95 . . .	73.516.504	108.929.110	35.412.606

It is easy to understand that these large Trade balances must be settled partly by Council Bills and partly in specie.

Up to now the balance in specie has been settled by the importation of silver.

It can be seen from the following statement how much—even only for the last eight years—the inhabitants of India have lost by this importation of the white metal.

Net Imports of Silver into India.

YEARS	AMOUNT in tens of Rupees	VALUE in £ at the average exchange	VALUE in £ at the present price of silver 31
1885-86 . . .	Rx 11,607,639	£ 8,827,808	£ 5,571,661
1886-87 . . .	7,155,738	5,200,134	3,434,754
1887-88 . . .	9,228,751	6,497,809	4,429,800
1888-89 . . .	9,246,679	6,310,473	4,438,405
1889-90 . . .	10,937,876	7,549,868	5,250,180
1890-91 . . .	14,175,136	10,684,508	6,804,065
1891-92 . . .	9,022,184	6,290,341	4,330,648
1892-95 . . .	12,863,569	8,031,690	6,174,513
TOTALS . . .	Rx 84,237,562	£ 59,392,631 40,434,026	£ 40,434,026
		£ 18,858,605	Present loss to the inhabitants of India.

It being no longer possible to settle the Trade balance in silver, the exchange will rise progressively until, at a day not far distant, the point is

reached which will permit the free introduction of Gold.

When the reform shall have become an accomplished fact, it will be recognized that it has been a great benefit to the country :

To the Inhabitants, in providing an instrument of exchange at once stable, and of a sufficient representative value.

To Commerce, in adding regularity to transactions, and a fixed basis for returns.

To the Government, in increasing the amount and stability of the revenue.

To the officials of every grade, in assuring to them the full value of their emoluments by removing the losses occasioned by the fluctuations of a depreciated currency.

In conclusion, a few words may perhaps not be out of place, as to the limit of 16 pence per rupee (i. e. 15 rupees = £. 1) which it is generally considered should be the basis of the new monetary system.

The Herschell committee recommended the adoption of this limit and the majority of the Indian Council appear to have accepted it.

There would seem, however, to be some divergence of opinion on this point. Some, well versed in Indian affairs, would like to see the rupee at a price nearer its original value of 2 shillings.

A high authority wrote me recently on this subject :

« I am altogether an unbeliever in the theory that
 « a low Exchange stimulates exports or benefits
 « trade. The experience of the United States after
 « the war of Secession seems to me conclusive on
 « this point. A gradual and almost imperceptible
 « return to the old rate of exchange, or even to
 « 1 sh. 8 d. (12 rupees = £. 1), would very much
 « lighten the burden of the Government of India.

« It would strengthen its credit, attract European
 « Capital, put an end to the serious discontent
 « which the fall in exchange has caused among the
 « official class, and in time bring about a reduction
 « in salaries which are much too high when judged
 « by the standard of other countries.

« When the competition of silver with Council
 « Bills is finally removed, I can see no reason why
 « Indian Exchange should not be fairly steady, with
 « a gradual tendency to rise.

« To a country with so large a surplus of Exports
 « as India, the possession of an actual Gold currency
 « does not seem to me of much importance; what
 « it, in common with other countries, requires, is
 « good credit, and then Gold will come whenever
 « it is wanted.

« The great object to be accomplished in India is
 « to reduce taxation, and the fewer rupees we draw
 « from the Treasury, the sooner will this be attain-
 « ed. »

My personal opinion on this question is that it is
 no more difficult to reach 1 sh. 8 d. than 1 sh. 4 d.

GERMANY AND THE INDIAN MINTS.

Sir W. CODDINGTON asked the Under Secretary for Foreign Affairs whether he could give any information as to the tenour of the communications which had passed between her Majesty's Government and that of Germany with reference to the re-opening of the Indian mints; and whether any change had taken place in the views of her Majesty's Government since the date of those communications.

Mr. CURZON.—On Nov. 3 Count Hatzfeldt inquired whether her Majesty's Government were willing to discuss the Bi-metallic Question in conference, in the event of the German Government deciding to do so. Lord Salisbury replied that he must consult his colleagues before expressing a definite opinion, but that he did not exclude the idea of a conference if good grounds for holding it were shown. In a subsequent conversation Count Hatzfeldt inquired whether the Indian Government proposed to reopen their mints, as the German Government considered this a necessary condition of any international arrangement. On December 8 he was informed that the re-opening of the Indian mints was not contemplated either by the Government of India or by her Majesty's Secretary of State for India in Council. This being the case the subject was not then pursued. At a later date Count Hatzfeldt also called on Lord Salisbury the statement which the German Chancellor proposed to make in the Reichstag as to what had passed between them. Lord Salisbury made no objection to the statement, but with reference to observations made in the Reichstag, he reminded Count Hatzfeldt that his reply had been confined to a statement of the facts as they then were, and had not been intended to imply any intention one way or the other for the future. The statement made by the First Lord on February 20 indicates the general views which her Majesty's Government, after consideration entertained upon the subject. 21-2-95.

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When the competition of silver with Council Bills is finally removed, I can see no reason why Indian Exchange should not be fairly steady, with a gradual tendency to rise.

To a country with so large a surplus of Exports as India, the possession of an actual Gold currency does not seem to me of much importance; what it, in common with other countries, requires, is good credit, and then Gold will come whenever it is wanted.

The great object to be accomplished in India is to reduce taxation, and the fewer rupees we draw from the Treasury, the sooner will this be attained.

My personal opinion on this question is that it is no more difficult to reach 1 sh. 8 d. than 1 sh. 4 d.

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Mr. GURZON.—On Nov. 8 Count Hatzfeldt inquired whether her Majesty's Government were willing to discuss the Bi-metallic Question in conference, in the event of the German Government desiring to do so. Lord Salisbury replied that he must consult his colleagues before expressing a definite opinion, but that he did not exclude the idea of a conference on agreed grounds for holding it were shown. In a subsequent conversation Count Hatzfeldt inquired whether the Indian Government proposed to reopen their mints, as the German Government considered this a necessary condition of any international arrangement. On December 6 he was informed that the re-opening of the Indian mints was not contemplated either by the Government of India or by her Majesty's Secretary of State for India in Council. This being the case the subject was not then pursued. At a later date Count Hatzfeldt showed to Lord Salisbury the statement which the German Chancellor proposed to make in the Reichstag as to what had passed between them. Lord Salisbury made no objection to the statement, but with reference to observations made in the Reichstag, he reminded Count Hatzfeldt that his reply had been confined to a statement of the facts as they then were, and had not been intended to imply any intention one way or the other for the future. The statement made by the First Lord on February 20 indicates the general views which her Majesty's Government entertain after consideration entertained upon the subject. 27-2-96

It is simply a question of time, and probably a short time.

It seems to me, nevertheless, desirable to arrive as quickly as possible at a rate which will give a stable basis to business, put an end to speculation (so detrimental in its effect) in Exchange, and once and for all enable India to have a Gold Standard.

The import of sovereigns into India is most desirable so as to have a stock of Gold in the country which would be available for meeting engagements abroad without depreciating the exchange in years of poor crops, famine, etc.

It is chiefly in view of attaining this object that the basis of 1 sh. 4 d. may be recommended.

Were time not so important an element, it is certain to my mind that the basis of 1 sh. 8 d. would be infinitely preferable both for the people and the Government of India.

E. KLEINMANN.

Hyères, 20th February 1896.

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